

DELAWARE AGRICULTURAL
LANDS PRESERVATION FOUNDATION

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

June 30, 2008 and 2007

WHEELER • WOLFENDEN • DWARES

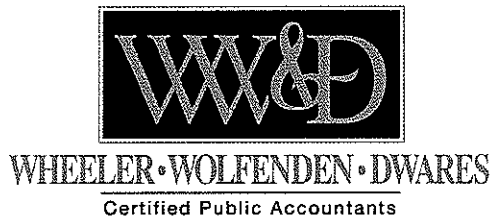
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Delaware Agricultural Lands Preservation Foundation
Dover, Delaware

We have audited the accompanying financial statements of the governmental activities and special revenue fund of Delaware Agricultural Lands Preservation Foundation (the Foundation) as of June 30, 2008 and 2007, which collectively comprise the Foundation's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and special revenue fund of the Foundation as of June 30, 2008 and 2007, and the changes in financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2009, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Trustees
Delaware Agricultural Lands Preservation Foundation

The management's discussion and analysis and budgetary comparison schedules on pages 6 through 14 and 28 through 30 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it

Wheeler, Wolfenden & Dwares, PA

March 5, 2009
Wilmington, Delaware

Delaware Agricultural Lands Preservation Foundation

Management's Discussion and Analysis

Our discussion and analysis of the Delaware Agricultural Lands Preservation Foundation's financial performance provides an overview of the Foundation's financial activities for the year ended June 30, 2008. Please read it in conjunction with the Independent Auditors' Report and the Foundation's financial statements.

FINANCIAL HIGHLIGHTS

The Foundation's net assets increased by \$29,262,427, from \$126,633,768 to \$155,896,195, most of this increase coming in the form of farm properties added to the program.

USING THIS FINANCIAL REPORT

This annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Foundation as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

REPORTING THE FOUNDATION AS A WHOLE

The Statement of Net Assets and Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the Foundation as a whole and about its activities that are necessary in determining whether the Foundation's financial health is improving or deteriorating. These statements include all assets and liabilities using the current financial resources measurement focus and the modified accrual basis of accounting. All revenues and expenses pertaining to fiscal year 2008 and 2007 are taken into consideration regardless of when cash is received or paid.

REPORTING THE FOUNDATION'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the Foundation's major fund and fund financial statements provides detailed information about the most significant funds – not the Foundation as a whole.

Governmental Funds

All of the Foundation's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified accrual method of accounting, which measures cash and other financial assets that

Delaware Agricultural Lands Preservation Foundation

Management's Discussion and Analysis

can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Foundation's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources available to spend in the near future to finance the Foundation's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements. Activities related to capital assets and compensated absences are the primary reconciling items.

ENTITY-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Foundation, assets exceeded liabilities by \$155,896,195.

The majority of the accounts payable left at the end of fiscal year 2008 are monthly charges for items such as vehicle rent and utilities. There are however, two significant items. One is the Foundation's June 2008 legal services bill for \$17,752 and the second is a bill for mapping services for \$17,374. The legal services bill includes the second half of the \$10,000 annual fee for fiscal year 2008 and teleconferences related to discussions regarding House Bill 453. The mapping services bill includes unusually high expenses related to Forestland mapping. No problems in meeting these expenses out of the money remaining to the Foundation at the end of fiscal year 2008 are anticipated, and the Foundation does not expect bills of this size for these services to become the norm in fiscal year 2009.

Most of the \$29,262,427 increase in net assets came in the form of capital assets, which increased by \$27,900,209, mostly due to the farmland added to the Foundation program in fiscal year 2008.

As of June 30, 2008, the Foundation has \$10,523 in its own checking account. In fiscal year 2009 this account will be closed and its balance will be transferred to an existing Foundation savings account overseen by the State of Delaware.

Delaware Agricultural Lands Preservation Foundation

Management's Discussion and Analysis

A comparative net assets analysis of fiscal years 2008 and 2007 follows:

TABLE 1

NET ASSETS

	Governmental Activities	
	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 10,523.00	\$ 9,084.00
Cash and Cash Equivalents Held by State	9,995,464.00	8,666,009.00
Rollback Taxes Receivable	32,473.00	7,131.00
Interest Income Receivable	92.00	321.00
Total Current Assets	<u>10,038,552.00</u>	<u>8,682,545.00</u>
Noncurrent Assets		
Capital Assets, Net of Depreciation	<u>145,906,624.00</u>	<u>118,006,415.00</u>
TOTAL ASSETS	<u>\$ 155,945,176.00</u>	<u>\$126,688,960.00</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 37,362.00	\$ 44,726.00
Accrued Salaries and Related Costs	5,502.00	5,374.00
Total Current Liabilities	<u>42,864.00</u>	<u>50,100.00</u>
Long-Term Liabilities:		
Compensated Absences	<u>6,117.00</u>	<u>5,092.00</u>
Total Long-Term Liabilities	<u>6,117.00</u>	<u>5,092.00</u>
TOTAL LIABILITIES	<u>48,981.00</u>	<u>55,192.00</u>
NET ASSETS		
Invested in Capital Assets	145,906,624.00	118,006,415.00
Unrestricted	<u>9,989,571.00</u>	<u>8,627,353.00</u>
TOTAL NET ASSETS	<u>\$ 155,896,195.00</u>	<u>\$ 126,633,768.00</u>

Delaware Agricultural Lands Preservation Foundation

Management's Discussion and Analysis

TABLE 2
CHANGES IN NET ASSETS

	Governmental Activities	
	<u>2008</u>	<u>2007</u>
REVENUES		
General Revenue:		
Earnings on cash and investments	\$ 6,697.00	\$ 11,159.00
Charges to county governments	3,523,720.00	2,305,531.00
Rollback Taxes	45,108.00	18,019.00
License Plate Income	5,880.00	9,695.00
Miscellaneous income	759.00	250,000.00
Program Revenue:		
Operating grants and contributions	13,164,128.00	15,134,834.00
Capital grants and contributions	<u>14,051,814.00</u>	<u>274,199.00</u>
Total Revenues	30,798,106.00	18,003,437.00
EXPENSES		
Farmland Preservation	(1,072,209.00)	(1,027,392.00)
Administrative Services:		
Operating Services	(113,470.00)	(92,769.00)
Contractual Services	<u>(350,000.00)</u>	<u>(350,000.00)</u>
Total Expenses	<u>(1,535,679.00)</u>	<u>(1,470,161.00)</u>
CHANGE IN NET ASSETS	<u>\$ 29,262,427.00</u>	<u>\$ 16,533,276.00</u>

THE FOUNDATION'S FUNDS

The Foundation's governmental funds (as presented on the balance sheet) as of June 30, 2008 reported a total fund balance of \$9,995,688 compared to last year's total fund balance of \$8,632,445.

Governmental Funds

The Foundation's fund balance increase is largely due to the inclusion in the fiscal year 2008 audit of land donated to the Foundation in previous fiscal years, though unrecorded in previous audits. The estimated fair market value of this land is \$13,742,606.

Delaware Agricultural Lands Preservation Foundation

Management's Discussion and Analysis

TABLE 3

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

	Special Revenue Fund	
	<u>2008</u>	<u>2007</u>
REVENUES		
State grant	\$ 10,000,000.00	\$ 10,000,000.00
Federal grant	3,164,128.00	5,134,809.00
Charges to county governments	3,523,720.00	2,305,531.00
Blenheim transfer	-	250,000.00
Rollback taxes	45,108.00	18,019.00
License plate income	5,880.00	9,695.00
Earnings on cash and investments	6,697.00	11,159.00
In-kind contributions	14,051,814.00	274,199.00
Donation	-	25.00
Miscellaneous income	<u>759.00</u>	<u>-</u>
TOTAL REVENUES	30,798,106.00	18,003,437.00
EXPENDITURES		
Current:		
Farmland Preservation	1,106,365.00	1,099,082.00
Administrative Services:		
Operating Services	393,250.00	357,558.00
Contractual Services	28,403.00	11,922.00
Capital Outlays:		
Equipment	9,984.00	7,776.00
Property	<u>27,896,861.00</u>	<u>20,467,354.00</u>
TOTAL EXPENDITURES	29,434,863.00	21,943,692.00
NET CHANGE IN FUND BALANCES	1,363,243.00	(3,940,255.00)
FUND BLANCES, BEGINNING OF YEAR	<u>8,632,445.00</u>	<u>12,572,700.00</u>
FUND BALANCES, END OF YEAR	<u>\$ 9,995,688.00</u>	<u>\$ 8,632,445.00</u>

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Management's Discussion and Analysis

The increase in revenues in fiscal year 2008 was due largely to the aforementioned inclusion in this audit of land worth \$13,742,606 donated to the Foundation in previous fiscal years.

Revenues exceeded expenses in fiscal year 2008 resulting in a \$1,363,243 increase in fund balances.

BUDGET INFORMATION

The Foundation's budget is prepared in accordance with the modified accrual basis of accounting. The most significant budgeted funds are Special Funds, from which most of the Foundation's activities are funded, with a small portion of its funding coming from in-kind contributions from the General Funds. The Foundation received from the State of Delaware the exact amount it budgeted for fiscal year 2008, and stayed within the budget approved by the Controller General and the Office of Management and Budget by making use of carryover funds and in-kind contributions.

The following are significant examples where the Foundation had to make use of its savings from previous fiscal years to cover unbudgeted costs:

Audit

Auditing fees increased from \$3,795 in fiscal year 2007 to \$24,150 in fiscal year 2008. In fiscal year 2008, the Foundation engaged a different firm to conduct the Foundation's audit. In addition, the scope of the Foundation's audit changed significantly from a financial statement audit of the administrative funds to a financial statement audit of the entire Foundation.

Mapping

During the course of fiscal year 2008 the Foundation agreed to co-finance mapping activities conducted by the Delaware Department of Agriculture's Forestry section. The Foundation allocated \$50,000 of carryover funds to this project, of which \$36,725 has already been spent. The Foundation is keeping these funds reserved for Forestry expenses indefinitely.

SPECIAL REVENUE FUND INFORMATION

The Special Fund receives most of its revenue in the form of State and Federal Grants and County Reimbursements on purchases of easement rights – fiscal year 2008 was an aberration in that a large portion of the Foundation's Special Fund

Delaware Agricultural Lands Preservation Foundation

Management's Discussion and Analysis

revenue reported in the audit came from in-kind contributions due to the aforementioned inclusion of donated land unreported in previous audits. The Foundation's budget for the State Grant each fiscal year is based on what the State informs the Foundation it is willing to grant in that fiscal year. As in the last several fiscal years the amount agreed to by the State was \$10,000,000. Due to the current state of Delaware's economy, the Foundation will only receive \$6,000,000 from the State in fiscal year 2009.

Federal Grant money, like the State Grant money, is budgeted by the Foundation each fiscal year on the basis of what the Federal Government is willing to grant in each fiscal year. The Federal Grant is a fixed amount set aside for the Foundation in much the same way that the State Grant money is, although the expenses for which it pays are first funded by the State Grant money, which is then reimbursed from the Federal Grant money upon the Foundation's request. The Federal Grant money is not counted as revenue until it is used to reimburse the State Grant funds. During fiscal year 2008, the Foundation was reimbursed by the Federal Government for funds first granted to it in fiscal years 2006 and 2007, in the amount of \$3,164,128.

Initially the Federal Government agreed to grant \$3,030,045 to the Foundation in fiscal year 2008, but so far this money has not been granted and the Federal Government is taking the position that it is not obligated to grant this money. It would not be wise to be optimistic about the Foundation's chances of receiving any Federal Grant money in fiscal year 2009.

County Reimbursement money is not budgeted by fiscal year but by rounds, the cycles in which new farms are purchased and added to the preservation program. The Counties agree to reimburse the Foundation up to a certain amount for selected properties in each round to be determined by percentage on each property. As estimates on the costs of the various properties are subject to change, it is not possible to predict accurately at the beginning of each fiscal year (or for that matter throughout most of the remainder of the fiscal year) how much County Reimbursement money the Foundation will receive. In fiscal year 2008 the Foundation received \$3,523,720 from the Counties for farms purchased in Round 12. For Round 13, only Kent County has agreed to provide any reimbursement money to the Foundation, and likely this reimbursement will be in the low hundred of thousands of dollars.

Rollback taxes are assessed on land that, having been valued, assessed, and taxed as agricultural land, is used for purposes other than farming. A portion of these taxes go to the school district wherein the property is located, and the Foundation receives the remainder less 7.5% paid to the county in which the property is located. Rollback tax revenue increased from \$18,019 in fiscal year 2007 to \$45,108 in fiscal year 2008. While this is good for the Foundation's finances it represents an increase in the usage of farmland for purposes other than farming, which goes contrary to the Foundation's basic mission. It is difficult to predict any trends for fiscal year 2009 regarding rollback tax income.

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Management's Discussion and Analysis

Interest income decreased from \$11,159 in fiscal year 2007 to \$6,697 in fiscal year 2008. The amount of interest income was substantially higher in fiscal year 2007 due to the presence for a lengthy portion of the year in the Foundation's state interest-bearing savings account of \$250,000 from a transfer of development rights. This money was ultimately moved from the savings account into a State-held funding line used for purchasing farmland. In fiscal year 2009 the \$150,000 portion of the State grant money that has in the past gone to the Foundation's savings account will instead be sent to a State-controlled account, meaning this money will not be accruing interest as in the past and the Foundation can expect less interest income than in previous fiscal years.

License plate income was down from \$9,695 in fiscal year 2007 to \$5,880 in fiscal year 2008. With the local and national economies suffering it seems reasonable to predict that fewer people will be buying non-essential items like Foundation license plates in fiscal year 2009 than was the case in fiscal year 2008.

Total in-kind contributions increased drastically from \$274,199 in fiscal year 2007 to \$14,051,814 in fiscal year 2008, due mostly to the inclusion in this audit of the aforementioned land worth \$13,742,606 donated to the Foundation in previous fiscal years but not included in previous audit reports. The remaining \$309,208 of in-kind contributions came from the Delaware Department of Agriculture, with which agency the Foundation shares many expenses, including personnel, supplies, and contractual costs. Any future in-kind contributions are expected to be of this nature, and only modest increases in the \$309,208 total can be expected.

Transfers of development rights are rare occurrences and none occurred during fiscal year 2008. It is unlikely that the Foundation will receive any income from transfers of development rights in fiscal year 2009.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

The State of Delaware, its three Counties, and the whole of the United States are experiencing economic difficulties which could affect the amount of funding the Foundation receives at the State, County, and Federal levels in fiscal year 2009 and beyond. In a worst case scenario, should all State, County (including rollback taxes), and Federal funding be withheld for fiscal year 2009, and should the County and Federal authorities decide not to pay the Foundation money they pledged for fiscal year 2008 which the Foundation has not yet received from them, the Foundation has in hand, as of June 30, 2008, \$110,637 in its State interest-bearing savings account (approximately \$95,000 of which would be used to replenish the payroll line mentioned further down in lieu of State Grant money), with \$10,523 to be added to this account with the imminent closing of the Foundation's checking account and the subsequent movement of the funds it once held to the savings account; \$9,826,395 of State-held funds for surveys, appraisals, and acquisitions of easement and development rights and the legal costs associated with them; \$57,415 of State-held funds for mapping costs and legal and survey costs not directly related to the

Delaware Agricultural Lands Preservation Foundation

Management's Discussion and Analysis

acquisition of land into the program; and \$1,017 held by the State in a payroll line. The savings account would receive monthly interest, which would probably be negligible.

Under these circumstances the Foundation could continue to function for only one more fiscal year. However, it seems unlikely that the Foundation will lose its yearly State funding or rollback income, even though the State will probably continue giving the Foundation considerably less than the \$10,000,000 per year it has become accustomed to. As long as it receives some funding from the State to cover its payroll and other operating expenses each fiscal year it can continue to function at its most basic level indefinitely.

Requests for Information

This financial data is designed to provide a general overview of the Delaware Agricultural Lands Preservation Foundation's finances for all those with an interest in the Foundation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Accounting Specialist, Delaware Agriculture Lands Preservation Foundation, 2320 South duPont Highway, Dover, Delaware 19901.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

STATEMENTS OF NET ASSETS

June 30, 2008 and 2007

	Governmental Activities	
	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,523	\$ 9,084
Cash and cash equivalents – held by the State	9,995,464	8,666,009
Total cash and cash equivalents	10,005,987	8,675,093
Rollback taxes receivable	32,473	7,131
Interest income receivable	92	321
Total current assets	10,038,552	8,682,545
Noncurrent assets		
Capital assets, net of depreciation	145,906,624	118,006,415
TOTAL ASSETS	\$ 155,945,176	\$ 126,688,960
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current liabilities		
Accounts payable	\$ 37,362	\$ 44,726
Accrued salaries and related costs	5,502	5,374
Total current liabilities	42,864	50,100
Long-term liabilities		
Compensated absences	6,117	5,092
TOTAL LIABILITIES	48,981	55,192
NET ASSETS		
Invested in capital assets	145,906,624	118,006,415
Unrestricted	9,989,571	8,627,353
Total net assets	155,896,195	126,633,768
TOTAL LIABILITIES AND NET ASSETS	\$ 155,945,176	\$ 126,688,960

The accompanying notes to the basic financial statements are an integral part of these financial statements.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2008

2008

	Program Revenues			Net (Expense) Revenues and Changes in Net Assets Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Farmland preservation	\$ (1,072,209)	\$ 12,664,128	\$ 14,051,814	\$ 25,643,733
Administrative services	(113,470)	150,000	-	36,530
Operating services	(350,000)	350,000	-	-
Contractual services				
Total governmental activities	\$ (1,535,679)	\$ 13,164,128	\$ 14,051,814	25,680,263
GENERAL REVENUES				
Earnings on cash and investments				6,697
Charges to county governments				3,523,720
Rollback taxes				45,108
License plate income				5,880
Miscellaneous income				759
TOTAL GENERAL REVENUES				3,582,164
CHANGE IN NET ASSETS				29,262,427
NET ASSETS, BEGINNING OF YEAR				126,633,768
NET ASSETS, END OF YEAR				\$ 155,896,195

The accompanying notes to the basic financial statements are an integral part of these financial statements.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2007

	2007			Net (Expense)
	Program Revenues			Revenues and
	Charges	Operating	Capital	Changes in
	for	Grants and	Grants and	Net Assets
	Services	Contributions	Contributions	Total
Expenses				
GOVERNMENTAL ACTIVITIES				
Farmland preservation	\$ (1,027,392)	\$ 14,634,834	\$ 274,199	\$ 13,881,641
Administrative services				
Operating services	(92,769)	150,000	-	57,231
Contractual services	(350,000)	350,000	-	-
Total governmental activities	\$ (1,470,161)	\$ 15,134,834	\$ 274,199	13,938,872
GENERAL REVENUES				
Earnings on cash and investments				11,159
Charges to county governments				2,305,531
Rollback taxes				18,019
License plate income				9,695
Miscellaneous income				250,000
TOTAL GENERAL REVENUES				2,594,404
CHANGE IN NET ASSETS				16,533,276
NET ASSETS, BEGINNING OF YEAR				110,100,492
NET ASSETS, END OF YEAR				\$ 126,633,768

The accompanying notes to the basic financial statements are an integral part of these financial statements.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

BALANCE SHEETS

June 30, 2008 and 2007

	Special Revenue Fund	
	2008	2007
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 10,523	\$ 9,084
Cash and cash equivalents – held by the State	9,995,464	8,666,009
Total cash and cash equivalents	<u>10,005,987</u>	<u>8,675,093</u>
Rollback taxes receivable	32,473	7,131
Interest income receivable	<u>92</u>	<u>321</u>
TOTAL ASSETS	<u>\$ 10,038,552</u>	<u>\$ 8,682,545</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 37,362	\$ 44,726
Accrued salaries and related costs	<u>5,502</u>	<u>5,374</u>
Total current liabilities	42,864	50,100
FUND BALANCE		
Unreserved	<u>9,995,688</u>	<u>8,632,445</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 10,038,552</u>	<u>\$ 8,682,545</u>

The accompanying notes to the basic financial statements are an integral part of these financial statements.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION
RECONCILIATION OF BALANCE SHEETS TO STATEMENTS OF NET ASSETS

For the Fiscal Year Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
TOTAL FUND BALANCES	\$ 9,995,688	\$ 8,632,445
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net assets.	145,906,624	118,006,415
Long-term liabilities applicable to the governmental activities are not due and payable in the current period and, therefore, are not reported as fund liabilities. Those liabilities consist of:		
Compensated absences	<u>(6,117)</u>	<u>(5,092)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	\$ <u>155,896,195</u>	\$ <u>126,633,768</u>

The accompanying notes to the basic financial statements are an integral part of these financial statements.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

STATEMENTS OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES

For the Years Ended June 30, 2008 and 2007

	Special Revenue Fund	
	2008	2007
REVENUE		
Farmland preservation	\$ 10,000,000	\$ 10,000,000
Federal grant	3,164,128	5,134,809
County reimbursements	3,523,720	2,305,531
Blenheim transfer	-	250,000
Rollback taxes	45,108	18,019
License plate income	5,880	9,695
In-kind contribution	14,051,814	274,199
Donation	-	25
Other income	759	-
Interest income	6,697	11,159
Total revenue	30,798,106	18,003,437
EXPENDITURES		
Current		
Easement and development rights acquisition		
Appraisals	137,825	168,075
Contracts	55,610	183,742
Equipment/fleet rental	15,687	23,312
Legal fees	569,162	353,967
Mapping	191,183	185,325
Public/legal notice	3,500	4,127
Survey fees	130,898	178,198
Travel	2,500	2,336
Total easement and development rights acquisition	1,106,365	1,099,082
Administrative		
Audit	24,150	3,795
Insurance	2,285	3,000
Office expense	15,468	10,153
Salaries and related expenses	379,750	352,532
Total administrative expenses	421,653	369,480
Capital outlay		
Equipment	9,984	7,776
Easements and development rights	27,896,861	20,467,354
Total capital outlay	27,906,845	20,475,130
Total expenditures	29,434,863	21,943,692
Net change in fund balance	1,363,243	(3,940,255)
Fund balance – beginning of year	8,632,445	12,572,700
Fund balance – end of year	\$ 9,995,688	\$ 8,632,445

The accompanying notes to the basic financial statements are an integral part of these financial statements.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

RECONCILIATION OF STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES TO STATEMENTS OF ACTIVITIES

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
NET CHANGE IN FUND BALANCES	\$ 1,363,243	\$ (3,940,255)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 are capitalized, and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	27,906,845	20,475,130
Depreciation	<u>(6,636)</u>	<u>(4,111)</u>
Total	27,900,209	20,471,019

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	<u>(1,025)</u>	<u>2,512</u>
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CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES	\$ <u>29,262,427</u>	\$ <u>16,533,276</u>
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The accompanying notes to the basic financial statements are an integral part of these financial statements.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION
NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2008 and 2007

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

On July 8, 1991, the Governor of the State of Delaware (the State) signed House Bill 200 to amend Chapter 9, Title 3, of the *Delaware Code*. The legislation established a comprehensive agricultural lands preservation program to serve the long-term needs of the agricultural community and the citizens of Delaware. It is declared policy of the State to conserve, protect and encourage improvement of agricultural lands within the State for the production of food and other agricultural products useful to the public, which are grown, raised or harvested on lands and water in the State.

The Delaware Agricultural Lands Preservation Foundation (the Foundation) was created by this legislation to accomplish this mission by establishing Agricultural Preservation Districts of viable and productive farmland and forestland. The Foundation is directed to provide economic incentives and benefits to agribusiness, purchase development rights from landowners, encourage development in areas where infrastructures exist, and promote the agricultural industry and the concept of preserving viable land for the future.

The enabling statute for the Foundation established a trust fund. Monies for farmland preservation have come from the 21st Century Fund set up by the General Assembly under the control of the Secretary of Finance and released to accounts within the Delaware Department of Agriculture under the certification and subsequent control of the Secretary of Agriculture. Federal funds and monies from the Capital Budget, earmarked for agricultural lands preservation district creation, are also solely the responsibility of the Delaware Department of Agriculture. All accounting of these expenditures is within the State's accounting system, DFMS.

For the fiscal years ended June 30, 2008 and 2007, the General Assembly of the State provided funding for the Foundation under Senate Bill No. 229 in the amount of \$10,000,000 for each year. Administrative costs of the Foundation are included in this funding and were in the amount of \$150,000 for each year. The administrative funds are administered directly by the Foundation in separate fund accounts; the remaining \$9,850,000 each year is administered by the State.

2. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available.

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

2. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Foundation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Foundation reports on only one fund which is the special revenue fund (a governmental fund type).

3. Cash and Cash Equivalents

Except for the checking account, cash and cash equivalents of the Foundation are controlled by the State Treasurer's Office in Dover, Delaware. The checking account is controlled by the Foundation. The Foundation considers all cash and cash equivalents with maturities of less than 90 days to be cash and cash equivalents.

4. Receivables

All receivables are considered fully collectible by management. No allowance for bad debt is deemed necessary.

5. Capital Assets

The Foundation defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. If such assets were acquired, they would be reported in the government-wide financial statements and would be recorded at historical cost or estimated historical cost. Donated capital assets would be recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized.

6. Fund Balance

In the fund financial statements, governmental funds report an unreserved fund balance for amounts that are available for appropriation.

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Compensated Absences

It is the Foundation's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for these amounts is reported in the governmental funds only when the liability matures, for example, as a result of employee resignations and retirements.

Vacation – Employees are paid for their accumulated annual leave at their current salary, excluding all supplemental and premium pays, upon separation from the State only.

Sick Leave – Employees are paid for accumulated sick leave at their current salary, excluding all supplemental and premium pays, at retirement, upon commencement of long-term disability, or if laid off without prejudice for lack of work at the rate of 1 hour's pay for each 2 hours of sick leave.

NOTE B – CASH AND CASH EQUIVALENTS

As of June 30, 2008 and 2007, the Foundation had a cash and cash equivalents balance of \$10,005,987 and \$8,675,093, respectively. Of that amount, \$9,995,464 and \$8,666,009 is part of an investment pool controlled by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State investment pool, and internal investment pool, are specifically identified for the Foundation, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity of one year or less at the time of purchase are stated at cost or amortized cost.

The checking account is in the custody of the Foundation officials. At June 30, 2008 and 2007, the bank balances of these funds were \$28,227 and \$11,527, respectively. The bank balance of cash deposits is insured by the Federal Deposit Insurance Corporation (FDIC) and, therefore, there is no custodial credit risk for these cash deposits. At June 30, 2008 and 2007, the book balances of these funds were \$10,523 and \$9,084, respectively.

NOTE C – ROLLBACK TAXES

Under the provisions of House Bills 200 and 630, rollback taxes under the Farmland Assessment Act are directed to be paid by New Castle, Kent and Sussex counties (the Counties) to the Foundation. In the Farmland Assessment Act of 1969, provision is made for a rollback tax. These rollbacks occur whenever land that qualified under the Farmland Assessment Act is changed from in use for agriculture to some other use. Under the provisions of House Bill 630, a change of use was further defined as changes in zoning, subdivision, building permits or certificate of occupancy status. On the day that such rollback takes effect, a tax obligation is created for the owner of record. The tax is computed as the difference between the taxes that would have been paid without Farmland Assessment and the taxes that were in fact paid under Farmland Assessment for five years previous to the date of change in use. This sum of money is due and payable to the Counties and is then directed by the Counties to two recipients.

The first recipient is the school district within which the property lies and the second is the Foundation. The share of the money from the rollback tax, which is computed for each of these recipients, is based upon their proportionate share of the tax rate, which was in effect during the five years on which the rollback was computed. Under statute, the Counties forward to the school district board the portion of the rollback tax attributable to the local school district. From the remaining funds, the Counties remove a 7.5 percent administrative fee as provided by statute and forward the remaining amount to the Foundation.

The Foundation records rollback taxes collected by the Counties as of June 30 but not remitted to the Foundation until a later date as rollback taxes receivable. The amount of the rollback taxes receivable was \$32,473 and \$7,131 at June 30, 2008 and 2007, respectively.

NOTE D – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2008 and 2007 was as follows:

	2008			
	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Land	\$117,996,618	\$27,896,861	\$ -	\$145,893,479
Equipment	71,129	9,984	-	81,113
Less: accumulated depreciation	<u>(61,332)</u>	<u>(6,636)</u>	<u>-</u>	<u>(67,968)</u>
Equipment – net	<u>9,797</u>	<u>3,348</u>	<u>-</u>	<u>13,145</u>
	<u>\$118,066,415</u>	<u>\$22,900,209</u>	<u>\$ -</u>	<u>\$145,906,624</u>

NOTE D – CAPITAL ASSETS (CONTINUED)

	2007			
	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Land	\$97,529,264	\$20,467,354	\$ -	\$117,996,618
Equipment	63,353	7,776	-	71,129
Less: accumulated depreciation	<u>(57,221)</u>	<u>(4,111)</u>	<u>-</u>	<u>(61,332)</u>
Equipment – net	<u>6,132</u>	<u>3,665</u>	<u>-</u>	<u>9,797</u>
	<u>\$97,535,396</u>	<u>\$20,471,019</u>	<u>\$ -</u>	<u>\$118,066,415</u>

NOTE E – ACCOUNTS PAYABLE

Accounts payable represents consulting/contractual services and legal expenses incurred by the Foundation prior to the end of the fiscal year but not paid until the following fiscal year. Accounts payable was \$37,362 and \$44,726 at June 30, 2008 and 2007, respectively.

NOTE F – PENSION PLAN

Foundation employees are considered State employees and are covered under the State's pension program. For fiscal years 2008 and 2007, the State contributed 15.95 percent of the State's share of the employees' salary. Employees contribute 3 percent of salary in excess of \$6,000 per share up to social security maximum and 3 percent for any salary above social security maximum. Total pension cost of \$10,739 and \$9,568 is included in the financial statements in salaries and related expenses. Pension cost accrued at June 30, 2008 and 2007 was \$814 and \$837, respectively.

Certain significant plan provisions follow:

- Early retirement
 - a. 15 years service and age 55
 - b. 25 years service and no age requirement
- Service Retirement
 - a. 15 years service and age 60
 - b. 30 years service and no age requirement
 - c. 5 years service and age 62
- Disability Retirement
 - a. 5 years service and proof of disability
- Vested Pension
 - a. 5 years of service.

NOTE F – PENSION PLAN (CONTINUED)

The State's pension program is a defined benefit plan. More information on this plan is available in the Delaware Public Employee Retirement System (DPERS) Comprehensive Annual Financial Report. This report may be obtained by writing DPERS at Suite 1, McArdle Building, 860 Silver Lake Boulevard, Dover, Delaware 19904, by calling 1-800-722-7300, or visiting their website at www.delawarepensions.com/information/financials.shtml.

NOTE G – LEASE

The Foundation was committed under a capital lease for the copier equipment through November 1, 2007. The cost of the equipment at time of lease was \$75,503. Monthly payments, including principal and interest, were approximately \$5,000. For the years ended June 30, 2008 and 2007, the lease expense was approximately \$10,000 and \$19,000, and interest expense was approximately \$0 and \$530, respectively. These expense amounts are all included in the operational expenses on the statement of net assets and in the equipment/fleet rental on the statement of revenue, expenditures and changes in fund balances.

NOTE H – COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are various outstanding commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The Foundation does not anticipate losses from these transactions.

NOTE I – DONATED LAND, FACILITIES AND SERVICES

The estimated fair market value of the donated land included in the financial statements as of June 30, 2008 and 2007 were \$13,742,606 and \$0, respectively.

The estimated fair market value of donated services and facilities received from the State of Delaware, Department of Agriculture, included in the financial statements are as follows as of June 30:

	<u>2008</u>	<u>2007</u>
Personnel	\$ 287,338	\$ 261,829
Travel	2,500	1,500
Contractual	5,870	5,870
Capital	6,000	-
Supplies	<u>7,500</u>	<u>5,000</u>
	<u>\$ 309,208</u>	<u>\$ 274,199</u>

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

BUDGETARY COMPARISON SCHEDULE – CONTRACTUAL FUND

BUDGET TO ACTUAL

For the Fiscal Year Ended June 30, 2008

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE			
State aid	\$ <u>9,850,000</u>	\$ <u>9,850,000</u>	\$ <u>-</u>
Total revenue	<u>9,850,000</u>	<u>9,850,000</u>	<u>-</u>
EXPENDITURES			
Farmland preservation	9,500,000	8,157,507	1,342,493
Mapping	158,000	158,000	-
Legal fees	142,000	128,747	13,253
Annual site visits	33,500	33,500	-
New site visits	6,500	6,500	-
File scanning lease	<u>10,000</u>	<u>9,927</u>	<u>73</u>
Total expenditures	<u>9,850,000</u>	<u>8,494,181</u>	<u>1,355,819</u>
Net change in fund balance	\$ <u><u>-</u></u>	1,355,819	\$ <u><u>1,355,819</u></u>
Fund balance – beginning of year		<u>8,557,697</u>	
Fund balance – end of year		\$ <u><u>9,913,516</u></u>	

NOTE: The Foundation's budget is presented on the modified accrual basis of accounting.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

BUDGETARY COMPARISON SCHEDULE – OPERATING FUND

BUDGET TO ACTUAL

For the Fiscal Year Ended June 30, 2008

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUE			
State aid	\$ 150,000	\$ 150,000	\$ -
Total revenue	150,000	150,000	-
EXPENDITURES			
Personnel	96,000	94,031	1,969
Miscellaneous contractual	6,000	6,000	-
Mapping	26,000	26,000	-
Advertising	3,500	3,500	-
Telephone	1,500	1,500	-
Auto rental	10,000	5,760	4,240
Insurance	3,500	2,285	1,215
Accounting and auditing	3,500	3,500	-
Total expenditures	150,000	142,576	7,424
Net change in fund balance	\$ -	7,424	\$ 7,424
Fund balance – beginning of year		74,748	
Fund balance – end of year		\$ 82,172	

NOTE: The Foundation's budget is presented on the modified accrual basis of accounting.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING

June 30, 2008

BUDGETARY BASIS VS GAAP

The budgetary comparison schedules on the previous two pages provide a comparison of the original and final budgets with actual data on a budgetary basis.

The contractual fund budget consists of \$9,850,000 in funds appropriated by the State to be used for the preservation of agricultural lands within the State. The operating fund budget consists of \$150,000 in funds appropriated by the State to be used for administrative purposes, such as personnel costs and mapping fees. Because the funds are used for different purposes, the Foundation creates two separate budgets. Together, the budgets encompass the \$10,000,000 in State funds received during fiscal year 2008 and are included in the special revenue fund in the financial statements.

SUPPLEMENTARY INFORMATION



WHEELER • WOLFENDEN • DWARES
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Delaware Agricultural Lands Preservation Foundation
Dover, Delaware

We have audited the financial statements of the governmental activities and special revenue fund of Delaware Agricultural Lands Preservation Foundation (the Foundation) as of and for the year ended June 30, 2008, and have issued our report thereon dated March 5, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Delaware Agricultural Lands Preservation Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Foundation's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Foundation's financial statements that is more than inconsequential will not be prevented or detected by the Foundation's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

To the Board of Trustees
Delaware Agricultural Lands Preservation Foundation

1. Management has requested that we prepare the Foundation's financial statements including footnotes. Although we have prepared the financial statements, the financial statements still remain the responsibility of management. A proper system of internal controls over financial reporting is essential in order to prevent, detect and correct misstatements. We noted that the Foundation does not have the necessary expertise in order to prepare the financial statements, including footnotes, in accordance with the complex requirements of the accounting principles generally accepted in the United States of America. Our firm has implemented the appropriate controls over the financial statement preparation; however, our controls cannot be considered as the Foundation's internal controls. Accordingly, a significant deficiency in the Foundation's internal controls exists in regards to the financial statement reporting function.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Foundation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Foundation's management, the Board of Trustees, Department of Agriculture, Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, and Department of Finance and is not intended to be, and should not be, used by anyone other than these specified parties.

Wheeler, Wolfenden & Dwan, PA

March 5, 2009
Wilmington, Delaware

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

For the Fiscal Year Ended June 30, 2008

SUMMARY OF AUDITORS' RESULTS

Basic Financial Statements

Type of auditors' report issued is unqualified.

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not
considered to be material weaknesses? X yes _____ none reported

Noncompliance material to financial statements noted? _____ yes X no

FINDINGS – FINANCIAL REPORTING

A. Current Year Findings

2008-01: Internal Control over Accounting Records and Financial Reporting

Criteria

To ensure proper internal control over accounting records and financial reporting, the Authority is required to supervise accounting staff, maintain accurate accounting records, and prepare its financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Condition

Management has requested that the auditors prepare the Foundation's financial statements, including the related footnotes. Although the auditors have prepared the financial statements, the financial statements still remain the responsibility of management. A proper system of internal controls over financial reporting is essential in order to prevent, detect and correct misstatements. The Foundation does not have the necessary staff expertise to prepare the financial statements, including footnotes, in accordance with the complex requirements of the U.S. Generally Accepted Accounting Principles. Our firm has implemented the appropriate controls over the financial statement preparation; however, our controls cannot be considered as the Foundation's internal controls. Accordingly, a significant deficiency in the Foundation's internal controls exists in regards to the financial statement reporting function.

Cause

There is no one on the accounting staff with the expertise to review the financial statements prepared by the auditors.

Effect

As a result, management is relying on the auditors for sufficient internal controls to prepare financial statements in accordance with U.S. Generally Accepted Accounting Principles.

Recommendation

The Foundation should appoint a full time or part time individual who is experienced and has knowledge in preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles.

B. Prior Year Findings

There were no prior year findings.